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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

Access Charge Reform)	CC Docket No. 96-262
)	
Price Cap Performance Review)	CC Docket No. 94-1
for Local Exchange Carriers)	
)	
Transport Rate Structure)	CC Docket No. 91-213
and Pricing)	
)	
End User Common Line Charges)	CC Docket No. 95-72
)	

REPLY TO OPPOSITIONS TO
PETITION FOR RECONSIDERATION OR CLARIFICATION

In its Petition for Reconsideration or Clarification, Puerto Rico Telephone Company ("PRTC") requested that the Commission reconsider its Access Charge Reform Order to the extent that it requires carriers to apply any universal service support it receives from the federal fund solely to the reduction of its interstate access charge revenue requirements.¹

PRTC's Petition was addressed only by AT&T, MCI, and Sprint, which oppose application of USF funding for any purpose other than the reduction of access charges paid by them to ILECs. These IXCs raise two arguments against PRTC's petition: first, they suggest that implicit universal service support remains in access charges; second, they claim that federal universal service support should fund reductions in access charges. Neither of

¹ Access Charge Reform Order, First Report and Order, CC Docket No. 96-262, FCC 97-158 (rel. May 16, 1997), recon. Order on Reconsideration by Commission Motion, FCC 97-247 (rel. July 10, 1997) ("Order").

these arguments justify the claim that universal service funds must be used exclusively to reduce interstate access charges. Indeed, such a position is directly contrary to the express requirements of section 254 of the Communications Act.

I. THE FCC ALREADY DESIGNATED "IMPLICIT" UNIVERSAL SERVICE SUPPORT AS EXPLICIT IN THE REVISED UNIVERSAL SERVICE SUPPORT FUND

The FCC already has identified and made explicit two components of the new universal service fund, Long Term Support ("LTS") and DEM weighting. Yet, each of the commenters claims that access charges should be reduced by universal service support receipts in order to offset remaining "implicit subsidies" that have not been removed from access charges. AT&T claims that "interstate access charges are set substantially above cost and constitute a source of universal service subsidies."² Similarly, Sprint charges that until access charges are set at economic cost, "the continuation of implicit subsidies in access charges for universal service" will only be justified by a dollar-for-dollar universal service reduction of interstate access revenue requirements.³ According to MCI, "when the universal service support implicit in access charges is made explicit, access charges must be reduced to avoid double recovery of that support."⁴

² AT&T at 15.

³ Sprint at 6; see also MCI at 20.

⁴ MCI at 20.

Upon the assignment of LTS and DEM weighting to the universal service fund, two corresponding changes in access charges will occur. First, non-NECA pool LECs will no longer calculate their carrier common line charges to include their Long Term Support contributions. Second, switched access rates will no longer include any implicit subsidy for DEM weighting, because it will be funded instead through universal service support contributions.⁵ If these are the required "offsets" that AT&T, MCI, and Sprint want to ensure, then PRTC, as stated in its petition, does not disagree.⁶

The Commission, however, has not identified any remaining subsidies for removal or reduction, and does not immediately intend to do so. To the contrary, the Commission concluded that "as with any implicit support mechanism, universal service costs are presently intermingled with all other costs, including the forward-looking economic cost of interstate access and historic costs associated with the provision of interstate access services."⁷ Indeed, it "could not remove universal service costs from interstate access charges" until it could identify those

⁵ A non-price cap LEC "must exclude from its local switching interstate revenue requirement any high-cost support attributable to DEM weighting and price cap LECs receiving support attributable to DEM weighting must "make a downward exogenous adjustment to its traffic sensitive basket price cap index (PCI) and to its common line basket PCI." Order on Reconsideration, FCC 97-247 (rel. July 10, 1997) at ¶¶ 5-6.

⁶ See PRTC Petition for Reconsideration or Clarification at 3.

⁷ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157 (rel. May 8, 1997) at ¶ 13.

costs.⁸ Thus, the Commission is primarily relying on competition in the market to reduce access charges.⁹

It appears that AT&T, MCI, and Sprint are asking for additional, unwarranted offsets to access charges from the federal universal service fund. By moving LTS and DEM weighting to the federal universal service fund, however, the Commission has already removed existing implicit subsidies from access charges and made them explicit. To then require that any additional support from the fund may only be used to reduce the access charge revenue requirement would provide a windfall to the IXC's and make it impossible for the Commission to comply with its statutory universal service mandate.

II. COSTS ALLOCATED TO THE INTERSTATE JURISDICTION FOR HIGH COST SUPPORT ARE INTENDED TO SUPPORT UNIVERSAL SERVICE, NOT IXCs

Based on these alleged "implicit subsidies," AT&T, MCI, and Sprint each claim that universal service recipients should be required to offset fund receipts against interstate access revenue requirements. These claims uniformly are based on the IXC's' view that because access charges allegedly have not yet been sufficiently reduced to eradicate all implicit subsidies, any federal universal service support should be funneled back into the access charge ratemaking calculations as a reduction in the revenue requirement. In practical terms, a "universal

⁸ Id.

⁹ Access Charge Reform Order at ¶¶ 216, 258-60..

service" program of this type would exist simply to process universal service support through eligible telecommunications carriers, back to IXCs in the form of reduced rates. Such a result bears no relationship to the support mechanism for basic local telecommunications service envisioned by Congress and set forth in section 254 of the Communications Act.¹⁰

The statute directs the Commission to define universal service and then establish a system to ensure that this defined service is available at affordable rates. Reduced access charges, even assuming that they might be reflected in lower long distance rates to consumers,¹¹ will do nothing to ensure that the family of services encompassed within the FCC's universal service definition are available throughout the entire Nation. PRTC fails to see how the scheme advocated by the IXCs will "unquestionably support the set of services the Commission has included in the definition of universal service,"¹² which AT&T concedes "are primarily local services."¹³ Instead, it forces

¹⁰ Indeed, by reducing the proportion of overall costs recovered through access charges, this approach would increase the costs that must be recovered through local rates. The rising local rates produced by this system would actually reduce subscribership to the services encompassed within the FCC's definition of universal service.

¹¹ Cf. USTA News Release, "Local Telephone Companies Reduce Access Charges \$1.4 Billion; Pressure Is Now on Long Distance Companies to Reduce Rates" (dated June 17, 1997).

¹² AT&T at 15.

¹³ Id. Moreover, once federal support is limited to 25 percent of the identified support, there is no basis for assuming that local services will be supported by this fund. AT&T's confidence notwithstanding, it is not apparent how support based

support that was previously provided to reduce local rates to support access charges.¹⁴ This result bears no relationship to the universal service mandate of section 254.

III. CONCLUSION

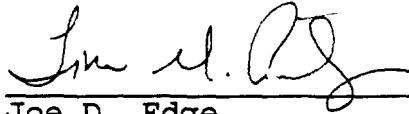
No opponent has attempted to explain how the blanket restriction upon the applicability of universal service support to interstate access revenue requirements ensures affordable local rates. Indeed, PRTC agrees with AT&T, MCI, and Sprint that access charges should be reduced to the extent that LTS and DEM weighting funding mechanisms have been made explicit as part of universal service. While the IXC's may disagree with the methods prescribed by the FCC for the calculation of access charge revenue requirements, neither that dissatisfaction, nor their desire for lower access rates, justifies creation of a USF mechanism that cannot achieve the principles mandated by Congress

upon a proxy model that currently does not contain Puerto Rico data, limited to 25 percent of the identified required support, and applied only to the interstate revenue requirement "will unquestionably support . . . primarily local services."

¹⁴ Of the supported services designated by the Joint Board and the Commission, access to interexchange service is only one. Support for such access, however, does not require guaranteed low access charges — it requires support for the cost of accessing interexchange services.

in section 254 of the Act. Therefore, PRTC urges the Commission to grant its Petition for Reconsideration or Clarification in the instant proceeding.

Respectfully submitted,



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Dated: August 28, 1997

CERTIFICATE OF SERVICE

I, Dottie Holman, do hereby certify that a copy of the foregoing Reply to Oppositions to Petition for Reconsideration was sent by hand-delivery and first-class mail this 28th day of August, 1997, to the following:

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